

Message Text

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ACTION EUR-12

INFO OCT-01 IO-04 ISO-00 SWF-01 AID-05 CEA-01 CIAE-00

COME-00 EB-04 FRB-01 INR-05 NSAE-00 RSC-01 CIEP-01

SP-02 STR-01 TRSE-00 LAB-01 SIL-01 SAM-01 OMB-01

NEA-06 FEA-01 INT-05 /055 W
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R 221759Z OCT 74

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC PRIORITY 7664

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION GENEVA

USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: EFIN, PFOR, EEC

SUBJECT: EC FINANCE COUNCIL - OCTOBER 21, 1974: HIGHLIGHTS

REF: EC BRUSSELS 8145

1. BEGIN SUMMARY: AT THEIR MEETING IN LUXEMBOURG ON OCTOBER 21, THE FINANCE MINISTERS OF THE EC AS FORCAST IN THE REFTEL, WERE ABLE TO AGREE ON THE PRINCIPLE AND MOST OF THE DETAILS FOR A COMMUNITY BORROWING FROM THE OPEC COUNTRIES. THE REMAINING DETAILS -- WHO IS TO SERVE AS AGENT FOR THE BORROWING AND WHICH BODY WILL DRAFT FOR THE COUNCIL'S APPROVAL THE MONETARY AND FISCAL CONDITIONS TO BE
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APPLIED TO THE RECIPIENT MEMBER STATE OR STATES -- ARE EXPECTED TO BE

SETTLED BY THE COMMITTEE OF PERMANENT REPRESENTATIVES (COREPER) AND APPROVED WHEN THE COUNCIL MEETS AGAIN ON NOVEMBER 18 IN BRUSSELS. THE COUNCIL ALSO APPROVED, WITH LITTLE DISCUSSION, THE COMMISSION PAPER ON THE ECONOMIC STATE OF THE COMMUNITY. END SUMMARY.

2. THE FINANCE MINISTERS OF THE NINE DEVOTED MOST OF THEIR COUNCIL SESSION TO THE QUESTION OF A COMMUNITY BORROWING FROM OPEC COUNTRIES TO ASSIST MEMBER STATES WHOSE BALANCES OF PAYMENTS HAVE SUFFERED AS A RESULT OF THE INCREASE IN OIL PRICES.

3. THE COUNCIL APPROVED A REGULATION (TEXT TO BE POUCHED), WHICH PROVIDES FOR BORROWING FOR A PERIOD OF NO LESS THAN FIVE YEARS, EITHER VIA THE MARKET OR DIRECTLY FROM A LENDING COUNTRY, A SUM EXPRESSED IN UNITS OF ACCOUNT (UA) EQUIVALENT TO \$3 BILLION IN PRINCIPLE AND INTEREST COMBINED. THIS SUM, WHICH MAY BE SOUGHT ALL AT ONCE OR IN SEVERAL INSTALLMENTS, IS TO BE BORROWED IN THE NAME OF THE COMMUNITY. IN THE EVENT OF FAILURE ON THE PART OF THE RECIPIENT TO REPAY THE OBLIGATION, THE OTHER EC GOVERNMENTS WILL SHARE THE LIABILITY. AS REPORTED IN REFTEL EACH MEMBER IS TO GUARANTEE A PROPORTION UP TO TWICE ITS PRESENT EXPOSURE UNDER THE SHORT AND MEDIUM-TERM CREDIT PROGRAM. (THUS, IF ITALY WERE THE RECIPIENT, GERMANY, THE UK AND FRANCE WOULD EACH BE LIABLE FOR UP TO 44.04 PERCENT; THE NETHERLANDS AND THE BELGIUM-LUXEMBOURG ECONOMIC UNION, 14.68 PERCENT EACH; DENMARK 6.60 PERCENT AND IRELAND 2.56 PERCENT). ALTHOUGH THE ACTUAL AGENT FOR THE LOAN REMAINS TO BE DECIDED, AT GERMAN INSISTENCE, THE PROCEEDS WILL BE HANDLED VIA THE CENTRAL BANKS.

4. A NUMBER OF COMPROMISES WENT INTO THE FINAL COMMUNITY POSITION. GERMANY, AFTER A TELEPHONE APPROVAL FROM CHANCELLOR SCHMIDT, AGREED TO HAVE THE CUMMUNITY BE THE FORMAL BORROWER OF THE MONEY, (SEVERAL LEGAL EXPERTS OF THE COUNCIL SAID THEY THOUGHT IT WOULD BE NECESSARY TO AMEND THE TREATY IF THE EUROPEAN MONETARY COOPERATION FUND WERE TO BE THE FORMAL BORROWER.) THE LIMIT OF \$3 BILLION WAS SET WITHOUT REGARD TO TIME. IF THE COMMUNITY IS SUCCESSFUL BORROWING THE FUNDS AND IF MEMBER STATES NEED LOANS BEYOND THE \$3 BILLION THE COMMISSION MAY PROPOSE FURTHER BORROWINGS. BUT THIS WOULD DEPEND ON UNANIMITY IN THE COUNCIL WHERE THE FRG WILL BE RELUCTANT TO EXCEED \$3 BILLION LIMITED OFFICIAL USE

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IN 1975.

5. THE ONLY SIGNIFICANT DETAILS REMAINING FOR COREPER TO CONSIDER ARE THE AGENT FOR THE BORROWING (THE EUROPEAN MONETARY COOPERATION FUND, THE BANK OF INTERNATIONAL SETTLEMENTS AND THE EUROPEAN INVESTMENT BANK WERE VARIOUSLY MENTIONED,) AND WHO IS TO PROPOSE TO THE COUNCIL THE MONETARY AND FISCAL CONDITIONS TO BE FOLLOWED BY THE RECIPIENT STATE.

6. THE MEETING REPORTEDLY GOT OFF TO A RATHER SHARP BEGINNING, WHEN THE FRENCH, ACCORDING TO A SOURCE PRESENT FOR THE DISCUSSIONS, INITIALLY TERMED THE GERMAN CONDITIONS "BYZANTINE". HOWEVER, THE FRENCH MELLOWED AS THE EVENING PROGRESSED AND AT THE PRESS CONFERENCE FOLLOWING THE MEETING, FRENCH FINANCE MINISTER FOURCADE SPOKE WARMLY OF THE RESULTS OF AN EXERCISE FIRST PROPOSED BY THEN FINANCE MINISTER GISCARD. HE WAS PRESUMABLY ALSO PLEASED BECAUSE THE COUNCIL COMMITTED ITSELF TO CONSIDER THE OTHER PORTIONS OF THE "FOURCADE PLAN" AT ITS NOVEMBER SESSION). THE ITALIANS URGED SPEEDY ACTION ON THE LOAN QUESTION AND FOR THE FIRST TIME FORMALLY INDICATED TO THE COUNCIL THAT THEY INTEND TO APPLY FOR THE PROCEEDS OF AT LEAST THE FIRST TRANCHE OF THE BORROWING AS SOON AS POSSIBLE. AT ITALY'S SUGGESTION, MEMBER STATES WHOSE LAWS REQUIRE IT MAY NOW SUBMIT THE PROPOSAL TO THEIR NATIONAL PARLIAMENTS, WITHOUT WAITING FOR THE NEXT COUNCIL MEETING. ACCORDING TO A FRENCH SOURCE, THE COMMISSION MAY NOW ALSO UNDERTAKE INITIAL NEGOTIATIONS WITH POTENTIAL LENDERS. HOWEVER, OTHER SOURCES INDICATE THAT THIS WILL HAPPEN ONLY WHEN ALL THE DETAILS ARE COMPLETELY SETTLED.

7. BOTH THE FRENCH AND THE BRITISH INDICATED PUBLICLY THAT THEY DID NOT NOW PLAN TO MAKE USE OF THIS NEW FACILITY. HOWEVER, NEITHER MINISTER RULED OUT THE POSSIBILITY IN THE FUTURE.

8. THE COUNCIL ALSO BRIEFLY CONSIDERED AND ADOPTED THE COMMISSION STATEMENT - AS MODIFIED BY THE EUROPEAN PARLIAMENT - ON THE ECONOMIC STATE OF THE COMMUNITY. THIS DOCUMENT WAS ADOPTED WITH LITTLE DISCUSSION, ACCORDING TO A COUNCIL SOURCE. CHANCELLOR HEALEY COMMENTED FAVORABLY THAT MORE ATTENTION HAD BEEN GIVEN TO THE PROBLEMS OF AN ECONOMIC SLOW-DOWN AND OF UNEMPLOYMENT THAN HAD BEEN THE CASE AT SIMILAR DISCUSSIONS IN THE PAST.

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9. COMMENT: EVEN THOUGH IT HAS TAKEN THE COUNCIL NINE MONTHS TO REACH AGREEMENT IN PRINCIPLE ON A EUROPEAN BORROWING, THIS DECISION REPRESENTS A SUBSTANTIAL STEP FORWARD FOR THE COMMUNITY. IT INDICATES A WILLINGNESS TO ACT JOINTLY TO HELP OUT HARD-PRESSED MEMBER STATES DESPITE THE RISK OF DEFAULT ON AN EC LOAN AND THE CONSEQUENT POTENTIAL COSTS TO SOME MEMBERS, ESPECIALLY GERMANY. THE LAON FACILITY WILL PROBABLY NOT BE SET UP BEFORE THE END OF THE YEAR. END COMMENT. GREENWALD

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCE, ECONOMIC STABILITY, MINISTERIAL MEETINGS, ECONOMIC PROGRAMS, ANTIINFLATIONARY PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 22 OCT 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ECBRU08235
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740301-0523
From: EC BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741028/aaaaaxkj.tel
Line Count: 162
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: EC BRUSSELS 8145
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 03 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03 APR 2002 by boyleja>; APPROVED <06-Aug-2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EC FINANCE COUNCIL - OCTOBER 21, 1974: HIGHLIGHTS
TAGS: EFIN, PFOR, EEC
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005